

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /123 W

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R 161525Z SEP 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 5023

INFO AMEMBASSY BONN

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

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UNCLAS SECTION 01 OF 03 PARIS 27042

PASS TREASURY, FEDERAL RESERVE, COMMERCE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 25670, SEPTEMBER 2, L976

1. SUMMARY --

ALMOST ALL OF THE ECONOMIC NEWS FOR THE LAST
SEVERAL WEEKS HAS CONSISTED OF SPECULATION AND
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SUGGESTIONS WITH REGARD TO THE ANTI-INFLATIONARY

PROGRAM TO BE ANNOUNCED SEPTEMBER 22. PRIME MINISTER BARRE HAS DISCUSSED THE SITUATION WITH ALL MAJOR INTEREST GROUPS WHILE MAINTAINING HIS OWN COUNSEL. THE ONLY STRAW HE HAS THROWN TO THE FRENCH PEOPLE, ANXIOUSLY AWAITING THE ANNOUNCEMENT OF THE EFFORT WHICH WILL BE EXPECTED OF THEM, IS THAT THIS EFFORT WILL BE DISTRIBUTED ON AN EQUITABLE BASIS.

2. PRIME MINISTER BARRE CONTINUES TO KEEP HIS PUBLIC IN THE DARK--

IN A TELEVISED INTERVIEW ON SEPTEMBER 13 PRIME MINISTER BARRE MADE VIRTUALLY NO ATTEMPT TO SATISFY THE CURIOSITY OF A NATION ANXIOUS TO KNOW THE FORM OF THE ANTI-INFLATIONARY PROGRAM WHICH HE IS TO ANNOUNCE SEPTEMBER 22. WHETHER M. BARRE IS RESERVING THE ELEMENTS OF HIS PROGRAM FOR ITS TOTAL SURPRISE IMPACT OR

WHETHER HE SIMPLY HAS NOT DECIDED ON ITS CONTENTS IS NOT KNOWN, BUT, IN ANY CASE, HE CHOSE ON MONDAY EVENING TO DESCRIBE HIS PROGRAM ONLY IN THE BROADEST GENERALITIES. AT THE MOST HE INDICATED THREE GOALS OF THE PLAN: IT WILL BE A POLICY FOR THE WHOLE OF FRANCE, I.E. FOR ALL SOCIO-PROFESSIONAL CATEGORIES; IT WILL BE A POLICY OF EQUITY IN THE DISTRIBUTION OF THE SACRIFICES WHICH THE FRENCH WILL BE ASKED TO MAKE; AND IT WILL EMPHASIZE CONTINUAL AND GLOBAL ACTION AGAINST THE INCREASE IN PRICES DESIGNED TO PRODUCE DURABLE RESULTS. M. BARRE ALSO REAFFIRMED TO THE UNIONS THAT THE CONTRACTURAL WAGE POLICY WILL BE MAINTAINED (ALTHOUGH THE POSSIBILITY IS NOT EXCLUDED THAT THE GOVERNMENT MIGHT EXERT STRONGER CONTROL OVER IT) AND THAT THE WAGE CONTRACTS ALREADY DRAWN UP FOR L976 WILL CONTINUE TO BE RESPECTED.

3. GOF CLAIMS 1976 BUDGET DEFICIT WILL BE FF 10-14 BILLION --

DESCRIBING AS "ALARMIST" RECENT PRESS SPECULATION THAT THE 1976 GOF BUDGET DEFICIT MAY GO AS HIGH AS UNCLASSIFIED

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FF 20 MILLION, THE MINISTRY OF ECONOMICS AND FINANCE HAS REAFFIRMED THAT THE DEFICIT SHOULD RANGE BETWEEN FF 10-14 BILLION. THIS ESTIMATE IS BASED ON THE EXPECTATION OF HIGHER GOVERNMENT RECEIPTS IN THE FINAL QUARTER OF THE YEAR. FOR EXAMPLE, ENTERPRISES HAVE BEEN AUTHORIZED TO DELAY UNTIL THE END OF THE YEAR A LARGE PART OF THEIR TAXES ON REVENUE. THE VALUE ADDED TAX IS ALSO EXPECTED TO SHOW HIGHER RECEIPTS DURING THE

FALL DUE TO THE RESUMPTION OF ACTIVITY FOLLOWING THE VACATION PERIOD. THE GOVERNMENT IS FURTHER COUNTING ON THE TAX OF SOLIDARITY TO FINANCE THE PROMISED AID TO DROUGHT VICTIMS. FINALLY, THE BARRE PLAN TO BE ANNOUNCED SEPTEMBER 22 COULD INCLUDE IMPORTANT ECONOMIES IN GOVERNMENT EXPENDITURE. THESE GOVERNMENT ESTIMATES OF THE BUDGET DEFICIT PROBABLY DO NOT MAKE ANY ALLOWANCE FOR THE SOCIAL SECURITY PROGRAM WHICH IS EXPECTED TO RUN A FF 2-3 BILLION DEFICIT THIS YEAR, AND THEY ALMOST CERTAINLY DO NOT TAKE INTO ACCOUNT THE

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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /123 W

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R 161525Z SEP 76

FM AMEMBASSY PARIS

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INFO AMEMBASSY BONN

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BORROWINGS OF GOVERNMENT-OWNED AND QUASI-INDEPENDENT ENTERPRISES.

4. MONEY SUPPLY CONTINUES LOWER RATE OF GROWTH IN JUNE--

THE MONTHLY INCREASE IN THE SEASONALLY ADJUSTED MONEY SUPPLY (M2, BROADLY DEFINED) WAS ONLY 0.4 PERCENT IN JUNE, DOWN FROM 0.8 PERCENT IN MAY. THE INCREASE OVER JUNE 1975 WAS 19.2 PERCENT. M2 STOOD AT FF 811.1

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BILLION, M1 AT FF 427.0 BILLION (0.5 PERCENT INCREASE FROM MAY), AND NEAR MONIES AT FF 385.4 BILLION (1.6 PERCENT INCREASE).

ON AN UNADJUSTED BASIS M2 WAS FF 817.6 BILLION (2.3 PERCENT INCREASE OVER MAY), M1 WAS FF 436.8 BILLION (4.0 PERCENT INCREASE) AND NEAR MONIES WERE FF 380.8 BILLION (0.4 PERCENT INCREASE).

THE UNADJUSTED NET FOREIGN EXCHANGE RESERVES STOOD AT FF 41.1 BILLION (DOWN 0.6 PERCENT), CLAIMS ON THE

PUBLIC SECTOR AT FF 107.8 BILLION (UP 4.2 PERCENT), AND CLAIMS ON THE PRIVATE SECTOR AT FF 693.2 BILLION (UP 2.4 PERCENT).

5. CURRENT ACCOUNT DEFICIT DECREASES SUBSTANTIALLY IN SECOND QUARTER --

PROVISIONAL BALANCE OF PAYMENTS DATA FOR SECOND QUARTER 1976 SHOW A MARKED DECREASE IN THE SECOND QUARTER CURRENT ACCOUNT DEFICIT, DOWN TO FF 2.9 BILLION FROM A DEFICIT OF FF 6.3 BILLION IN THE FIRST QUARTER. THE FINANCE MINISTRY ATTRIBUTES THIS IMPROVEMENT TO A STRONG INCREASE IN EXPORTS, A SLOWING-DOWN IN THE GROWTH OF IMPORTS AND A LARGE INCREASE IN NET SERVICES DUE PRIMARILY TO TOURISM.

FRENCH BALANCE OF PAYMENTS
(IN BILLIONS OF FRANCS; DATA FOR SECOND QUARTER PRELIMINARY, DATA FOR FOURTH QUARTER 1975 AND FIRST QUARTER 1976 REVISED.)

75-III 75-IV 76-I 76-II

TRADE BALANCE	1.7	-1.6	-3.9	-1.9
NET SERVICES	0.2	2.1	0.0	#1.5

BALANCE ON GOODS AND

SERVICES	1.9	0.5	-3.9	-0.4
NET TRANSFERS	-2.4	-2.5	-2.4	-2.5
BALANCE ON CURRENT ACCOUNT	-0.6	-2.0	-6.3	-2.9
LONG-TERM CAPITAL, NET	-L.7	-0.1	-2.6	-2.2
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BASIC BALANCE -2.2 -2.1 -8.9 -5.1

SHORT-TERM CAPITAL PLUS

OMISSIONS 7.2 3.1 -0.2 #5.2

BALANCE ON NONMONETARY

TRANSACTIONS 5.0 1.0 -9.1 0.1

THE DEFICIT ON THE MERCHANTISE TRADE ACCOUNT (INCLUDES "COURTAGE," OR THIRD-COUNTRY COMMODITY-BROKERAGE ACTIVITIES) DECREASED FROM FF 3.9 BILLION IN THE FIRST QUARTER TO FF 1.9 BILLION IN THE SECOND QUARTER. NET SERVICES, WHICH HAD BEEN IN BALANCE THE FIRST QUARTER, REGISTERED A SURPLUS OF FF 1.5 BILLION. TOURISM WAS THE MAJOR FACTOR CONTRIBUTING TO THIS INCREASE, SHOWING A SURPLUS OF FF 0.9 BILLION FOR THE SECOND QUARTER AS COMPARED TO A DEFICIT OF FF 0.1 BILLION IN THE FIRST QUARTER. THE DEFICIT IN TRANSFER PAYMENTS REMAINED VIRTUALLY UNCHANGED AT FF 2.5 BILLION.

THE CAPITAL ACCOUNT SHOWED A SHARP IMPROVEMENT, FROM A DEFICIT OF FF 2.8 BILLION IN THE FIRST QUARTER TO A SURPLUS OF FF 3.0 BILLION. LONG-TERM CAPITAL CONTINUED TO RESULT IN A NET OUTFLOW, FF 2.2 BILLION FOR THE SECOND QUARTER DOWN SLIGHTLY FROM FF 2.6 IN THE FIRST QUARTER. THIS LATTER FIGURE IS A MAJOR REVISION FROM THE PREVIOUSLY REPORTED PROVISIONAL DATA FOR THE FIRST QUARTER (SEE PARIS 16972) WHICH SHOWED A NET

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R 161525Z SEP 76

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LONG-TERM CAPITAL INFLOW OF FF 1.0 BILLION. IN THE
SECOND QUARTER A DECREASE IN FOREIGN BORROWING
(FF 2.5 BILLION, DOWN FROM FF 5.6 BILLION IN THE FIRST
QUARTER) WAS OFFSET BY A DECREASE IN COMMERCIAL CREDITS
ACCORDED TO FOREIGN BUYERS OF FRENCH PRODUCTS
(FF 2.8 BILLION, DOWN FROM FF 5.1 BILLION IN THE FIRST
QUARTER.) THE NET OUTFLOW OF LONG-TERM CAPITAL WAS
MORE THAN OFFSET BY AN FF 5.2 BILLION INFLOW OF SHORT-
TERM CAPITAL WHICH THE MINISTRY OBSERVED WAS MOSTLY OF
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A SPECULATIVE NATURE.

6. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS

PARIS

25703 FINANCING OF EAST-WEST TRADE (C-ER-6-50119) 9/3

26018 THE ECONOMIC VIEWS OF RAYMOND BARRE 9/8

26027 FRENCH DELEGATION TO IMF/IBRD ANNUAL

MEETINGS

9/8

AIRGRAMS

PARIS

A-369 THE SEVENTH FRENCH ECONOMIC PLAN (1976-80) 9/2

A-370 FRENCH FOREIGN EXCHANGE HOLDINGS 9/3

A-373 FRENCH FOREIGN EXCHANGE HOLDINGS 9/L0

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL STABILITY, ECONOMIC DEVELOPMENT, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976PARIS27042
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760349-1119
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760953/aaaabtju.tel
Line Count: 341
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 PARIS 25670
Review Action: RELEASED, APPROVED
Review Authority: vandyklc
Review Comment: n/a
Review Content Flags:
Review Date: 03 AUG 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 AUG 2004 by schaefaj>; APPROVED <13 AUG 2004 by vandyklc>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006